

E75D
State Lottery and Gaming Control Agency

Program Description

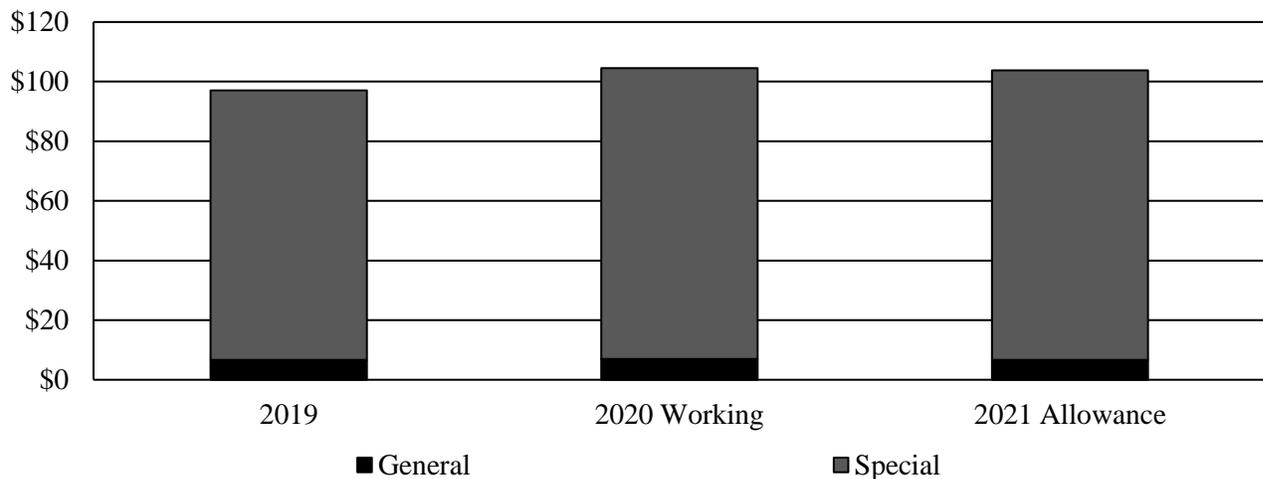
The State Lottery and Gaming Control Agency (SLGCA) administers and operates lottery games to generate revenue for the State and also administers the State’s casino program.

The lottery currently offers a mix of Instant Ticket and draw games. Draw games are those where players pick their numbers or use computer-generated numbers, receive a ticket, and then wait for a drawing to see if they have won. With Instant Ticket games, players scratch off a latex covering on a ticket play area to reveal preprinted combinations. Games are sold through lottery agents, which are private businesses that receive commissions and fees in exchange for selling the games to the public.

The State Lottery and Gaming Control Commission has oversight responsibility for SLGCA. In 2008, the commission was expanded to address additional responsibilities stemming from the video lottery terminal (VLT) legislation. SLGCA is responsible for the administration of the VLT program, including accounting for and distributing VLT revenues, managing the program’s central system, and regulating and licensing of operators. In fiscal 2012, SLGCA’s responsibilities were further expanded to include the regulation of table games at the previously authorized VLT facilities.

Operating Budget Summary

**Fiscal 2021 Budget Decreases by \$743,000 or 0.7% to \$103.8 Million
(\$ in Millions)**



Note: The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

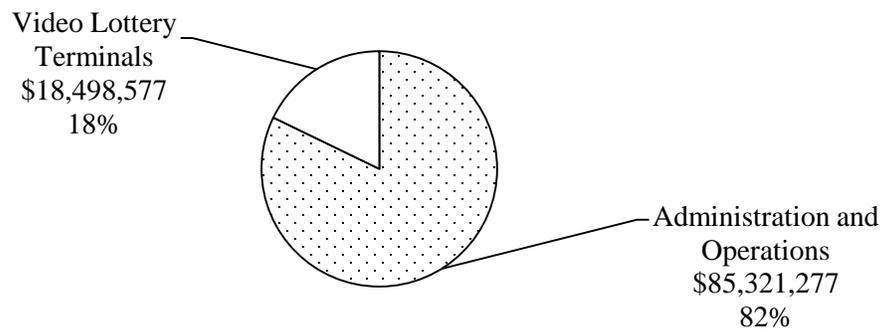
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Fiscal 2021 Overview of Agency Spending

The fiscal 2021 allowance for the agency totals \$103.8 million. As shown in **Exhibit 1**, SLGCA is divided into two units: Administration and Operations, which handles lottery gaming, and VLT and Gaming Operations, which is responsible for the regulation of the State’s VLT and table game operations. Lottery administration accounts for 82% of agency spending.

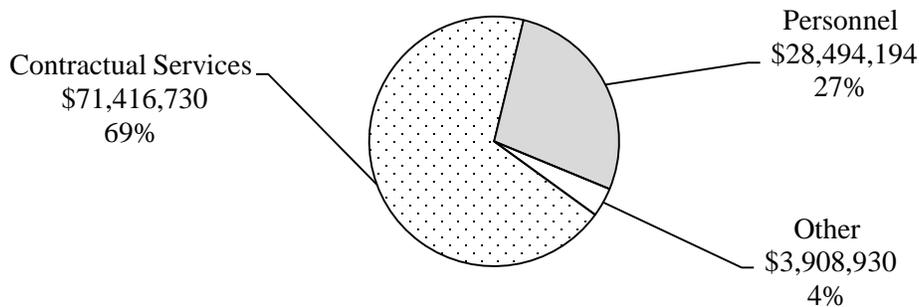
Exhibit 1
Expenditures by Program
Fiscal 2021 Allowance



Source: Governor’s Fiscal 2021 Budget Books

SLGCA’s expenses are primarily personnel costs (27% of the allowance) and costs for contractual services (69%), as shown in **Exhibit 2**.

Exhibit 2
Expenditures by Purpose
Fiscal 2021 Allowance



Source: Governor’s Fiscal 2021 Budget Books

Proposed Budget Change

As shown in **Exhibit 3**, SLGCA’s fiscal 2021 allowance decreases by \$743,000, or 0.7%, compared to the fiscal 2020 working appropriation.

**Exhibit 3
Proposed Budget
State Lottery and Gaming Control Agency
(\$ in Thousands)**

How Much It Grows:	General Fund	Special Fund	Total
Fiscal 2019 Actual	\$6,716	\$90,386	\$97,102
Fiscal 2020 Working Appropriation	6,962	97,601	104,563
Fiscal 2021 Allowance	<u>6,614</u>	<u>97,206</u>	<u>103,820</u>
Fiscal 2020-2021 Amount Change	-\$348	-\$395	-\$743
Fiscal 2020-2021 Percent Change	-5.0%	-0.4%	-0.7%
Where It Goes:			<u>Change</u>
Fiscal 2021 general salary increase (2% effective January 1, 2021).....			\$229
Fiscal 2021 cost of fiscal 2020 salary increase			97
Turnover adjustments			-10
Salaries and wages.....			-104
Employee retirement			-172
Employee and retiree health insurance.....			-277
Other fringe benefit adjustments			-13
Other Changes			
Contract costs for central lottery system, based on sales			600
Advertising			380
Contract costs for central video lottery terminal system			332
Rent			100
Software maintenance			90
Data processing equipment			50
Other.....			10
Software licenses.....			-125
Motor vehicles.....			-131
Maintenance for instant ticket vending machines, which have been phased out			-300
Contract costs for Instant Ticket Lottery Machines at veterans’ organizations			-1,500
Total			<u>-\$743</u>

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

Central Systems Costs

Combined contract costs for managing the central lottery and VLT systems increase nearly \$1 million, while the costs for managing the Instant Ticket Lottery Machines (ITLM), which are located at and benefit veterans’ organizations, decline by \$1.5 million. The costs for the lottery system are determined based on sales, which are expected to increase in fiscal 2021. The VLT system contract will expire in fiscal 2021, and SLGCA expects the costs under a new contract to increase slightly due to the need to replace existing systems. The decrease for the ITLM costs is due to the negotiation of a new contract with the vendor.

Personnel Data

	<u>FY 19</u> <u>Actual</u>	<u>FY 20</u> <u>Working</u>	<u>FY 21</u> <u>Allowance</u>	<u>FY 20-21</u> <u>Change</u>
Regular Positions	324.10	324.10	324.10	0.00
Contractual FTEs	<u>8.15</u>	<u>9.75</u>	<u>10.75</u>	<u>1.00</u>
Total Personnel	332.25	333.85	334.85	1.00

Vacancy Data: Regular Positions

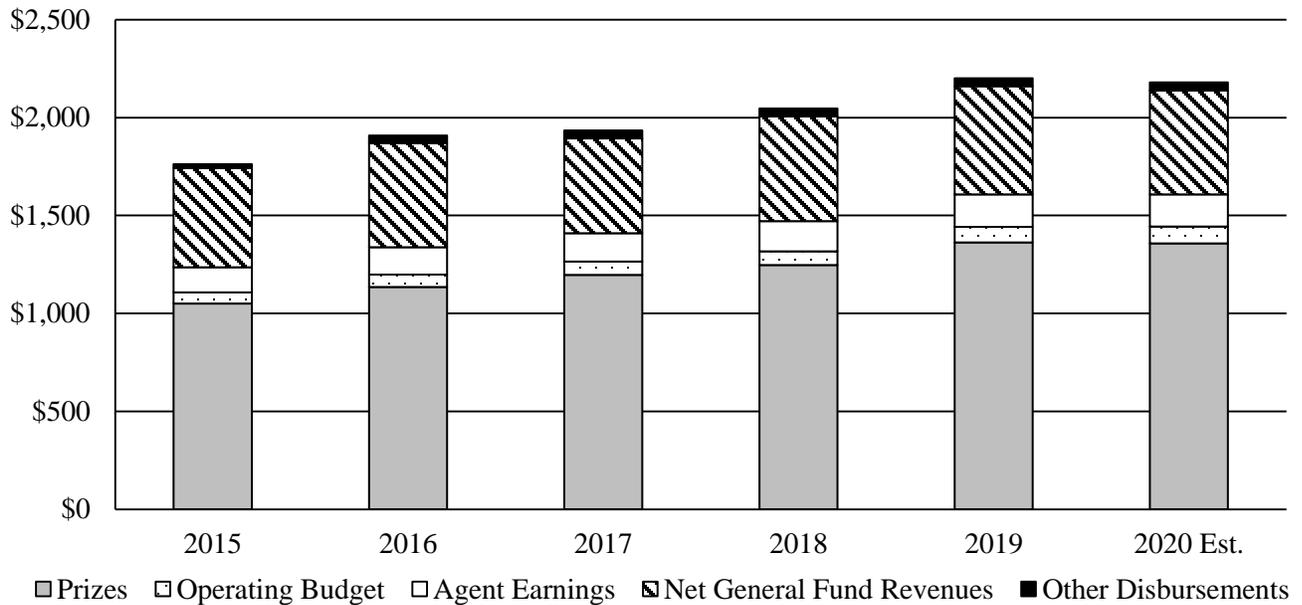
Turnover and Necessary Vacancies, Excluding New Positions	16.01	4.94%
Positions and Percentage Vacant as of 12/31/19	18.00	5.55%
Vacancies Above Turnover	2.0	

Key Observations

1. Lottery Sales Remain Strong

Lottery sales, prize payouts, and agent earnings all experienced increases in fiscal 2019 with sales growing by 7.3% to a record high of \$2.2 billion. This marks the fifth consecutive year of lottery sales increases. The Board of Revenue Estimates (BRE) anticipates a slight decrease in sales in fiscal 2020 but a further increase in fiscal 2021. Proceeds from the traditional lottery games pay for prizes, agent earnings, and all operating expenses of SLGCA. In fiscal 2019, 61.9% of sales paid for prizes, 7.5% paid for agent commissions and redemption fees, 3.6% paid for operations of the lottery program, 25.1% was credited as revenue to the General Fund, and 1.9% was disbursed to the Maryland Stadium Authority and the Maryland International Race Purse, per statute. Net general fund revenues increased by 3.3% to \$552.4 million in fiscal 2019. **Exhibit 4** shows total lottery sales and the distribution of those revenues from fiscal 2015 through an estimate for fiscal 2020.

Exhibit 4
Lottery Sales and Expenditures
Fiscal 2015-2020 Est.
(\$ in Millions)

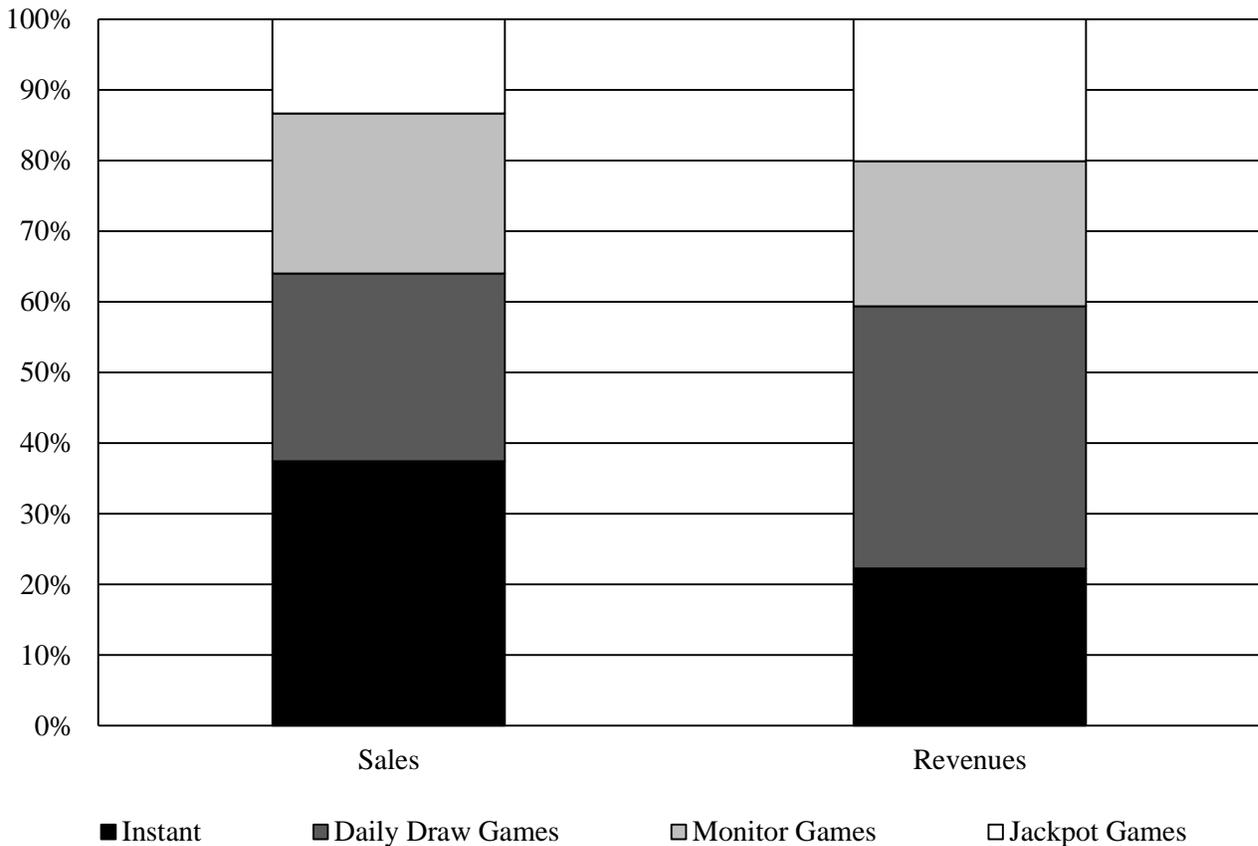


Note: Operating budget amount does not include funds to operate the video lottery terminal program.

Source: State Lottery and Gaming Control Agency

Exhibit 5 shows sales and revenues for each game type in fiscal 2019. Several years ago, SLGCA noted that its sales of instant tickets were underperforming as compared to other states, so the agency increased its effort to market these games. Sales of instant tickets grew by 8.2% in fiscal 2019. As shown in Exhibit 5, Instant Ticket Games make up 37% of sales but only 22% of revenue. The exhibit shows the relative popularity of the games, with instant ticket and daily draw games claiming most of the sales. Instant tickets are popular, in part, because of the relatively high payout rates, which result in less return to the State. Conversely, daily draw games make up 27% of sales and 37% of revenues. This is worth considering as SLGCA continues to place advertising emphasis on increasing instant ticket sales.

Exhibit 5
Lottery Sales and Revenues
Fiscal 2019



Note: Instant includes instant ticket lottery machines.

Source: State Lottery and Gaming Control Agency

2. State Revenue from Casinos Continues to Increase

Since fiscal 2008, SLGCA has been tasked with the responsibility of administering the VLT program for the State. This includes the regulation and licensing of operators, accounting for and distributing VLT and table game revenues, and managing the program’s central system. **Exhibit 6** shows background information on the locations that have video lottery operation licenses, including the number of VLTs and table games at each facility as of December 2019. State law authorizes 16,500 VLTs in State casinos. Casinos currently contain 11,474 VLTs, or 70% of the allowable number of machines, and 616 table games.

Exhibit 6 VLT Locations

<u>County</u>	<u>Casino</u>	<u>Date Opened</u>	<u>VLTs</u>	<u>Table Games</u>
Cecil	Hollywood	September 2010	822	21
Worcester	Ocean Downs	January 2011	892	18
Anne Arundel	Live!	June 2012	3,852	191
Allegany	Rocky Gap	May 2013	665	18
Baltimore City	Horseshoe	August 2014	2,106	161
Prince George’s	MGM	December 2016	3,137	207

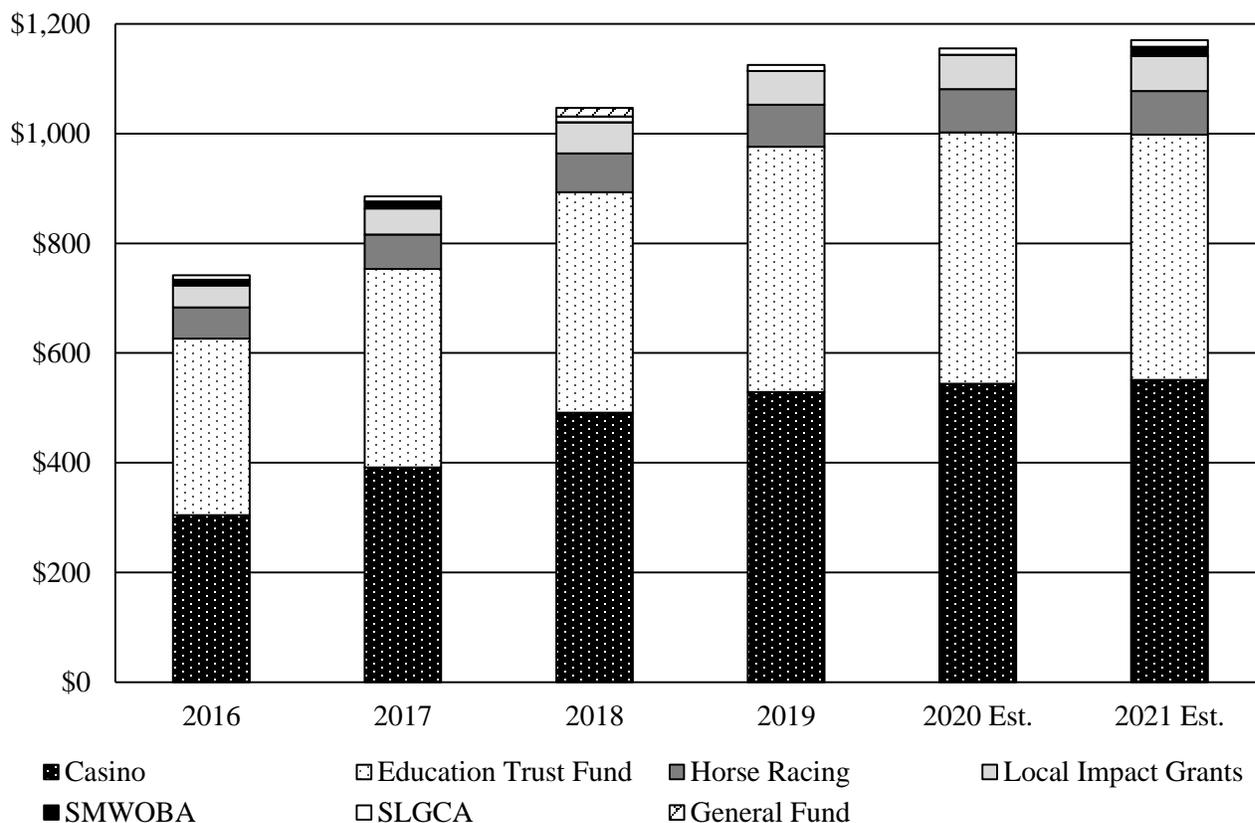
VLT: video lottery terminal

Source: State Lottery and Gaming Control Agency

VLT Revenue Distributions Increasing

Proceeds from VLTs are distributed to a variety of recipients, as shown in **Exhibit 7**. The amount that operators retain from VLTs is set in statute and currently varies between 39% and 60%, depending on the facility. After all other specified distributions have been made, the Education Trust Fund (ETF) receives the remainder. In fiscal 2019, the ETF received \$447.4 million from VLT distributions, an 11.4% increase over the prior year. BRE estimates increased distributions to the ETF in fiscal 2020 (\$458.5 million), followed by a slight decline in fiscal 2021 (\$447.3 million). Part of the reason for the decline is the return of funding of \$17.2 million in fiscal 2021 for the Small, Minority, and Women-Owned Businesses Account (SMWOBA). Funding that would otherwise have gone to this account has been diverted elsewhere in recent years. Specifically, for fiscal 2018, 1.5% of proceeds were distributed to the General Fund to pay a portion of the costs of grants established under Chapters 6 and 607 of 2017, and in fiscal 2019 and 2020, revenues that would otherwise go to SMWOBA were instead distributed to the ETF.

Exhibit 7
Gross VLT Revenue Distributions
Fiscal 2016-2021 Est.
(\$ in Millions)



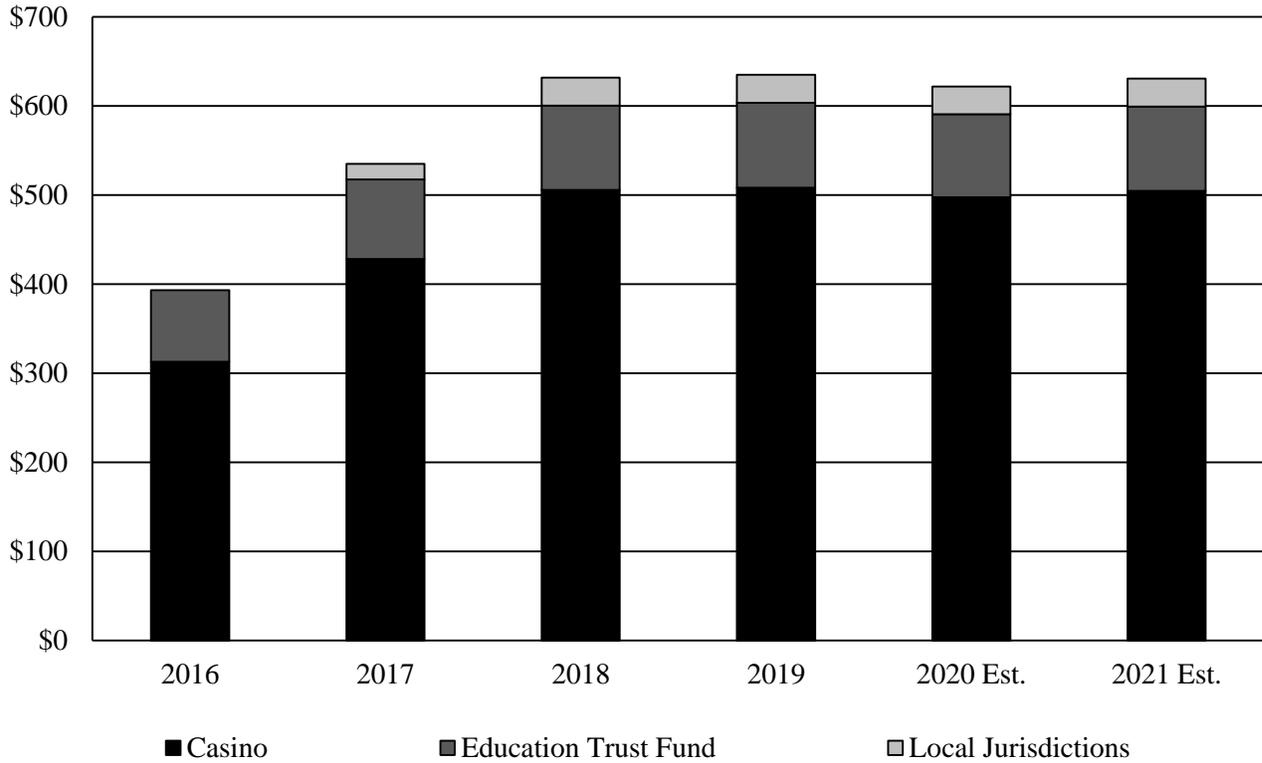
SLGCA: State Lottery and Gaming Control Agency
 SMWOBA: Small, Minority, and Women-Owned Businesses Account
 VLT: video lottery terminal

Source: State Lottery and Gaming Control Agency

Table Game Revenue Distributions Flat

Casinos began offering table games in fiscal 2013 with the operators retaining 80% of gross revenue and, until fiscal 2016, the remainder to the ETF. Beginning in fiscal 2017, 5% of gross revenue was distributed to the local jurisdiction in which the facility is located with 15% going to the ETF. As shown in **Exhibit 8**, the ETF received \$95.3 million from table game revenue in fiscal 2019, a 0.8% increase over the prior year.

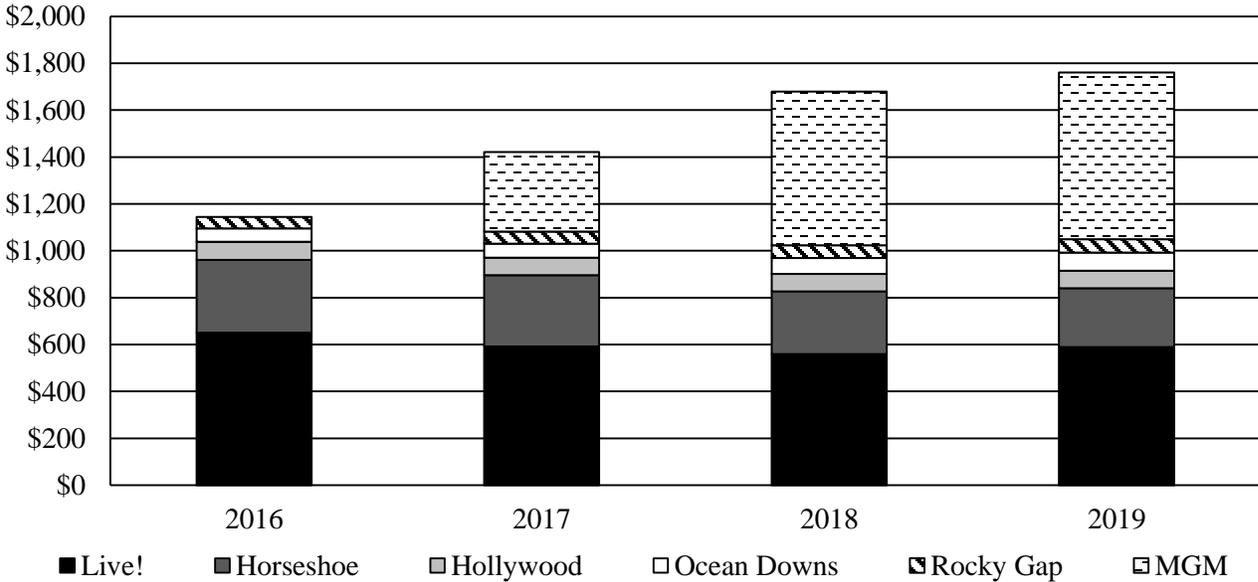
Exhibit 8
Table Game Revenue Distributions
Fiscal 2016-2021 Est.
(\$ in Millions)



Source: State Lottery and Gaming Control Agency

Overall, casino revenues – including both VLTs and table games – in the State increased by \$81.4 million, or 4.9%, in fiscal 2019. This increase is less than in prior years, as large increases in fiscal 2017 and 2018 were driven primarily by the opening of MGM National Harbor Casino in December 2016. Gross revenues by casino are shown in **Exhibit 9**.

**Exhibit 9
Gross Casino Revenues
Fiscal 2016-2019
(\$ in Millions)**



Source: State Lottery and Gaming Control Agency

3. Potential for Sports Betting in Maryland

In May 2018, the U.S. Supreme Court struck down the federal Professional Amateur Sports Protection Act (PASPA), allowing states to authorize sports betting. In addition to Nevada, which had an exception under PASPA, 13 states now offer sports betting.

Sports Betting in Maryland

In Maryland, legalized sports betting is considered an expansion of commercial gaming. Chapter 5 of the 2007 special session amended the Maryland Constitution so that after November 15, 2008, the General Assembly may only authorize additional forms or an expansion of commercial gaming if approved through a referendum by a majority of the voters in a general election. Legislation authorizing a referendum on sports betting was introduced in both houses during the 2019 session, but those bills failed to pass. If legislation is passed during the 2020 session, Maryland voters could consider the question in the 2020 general election.

Sports Betting in Other States

Since PASPA was struck down, there has been a rush of legislative activity in states hoping to capture a new source of gaming revenue. Sports betting operations are now underway in 13 of those states as of January 2020. **Exhibit 10** shows how these states have structured their sports betting operations and the revenues generated since going live. Additionally, Colorado, Illinois, Michigan, Montana, North Carolina, Tennessee, and the District of Columbia are expected to launch sports betting operations in the coming year.

Exhibit 10 Post-PASPA Sports Betting States and Revenues

<u>State</u>	<u>First Bet Placed</u>	<u>Tax Rate</u>	<u>Fees</u>	<u>Retail Sportsbooks Type / #</u>	<u>Mobile Betting</u>	<u>Sportsbook Data (Launch Date through December 2019)¹</u>
DE	6/5/18	59.8% (includes a 9.8% share for race purses)	No separate sportsbook licensing fee required	Racetracks (3)	No	Handle – \$189,620,117 Revenue ² – \$21,407,621 State Share – \$10,703,827
NJ	6/14/18	8.5% onsite betting 13% online betting	\$100,000 application fee	Casinos and racetracks (10)	Yes	Handle – \$5,837,241,986 Revenue – \$393,503,018 State Share – \$46,802,942
MS	8/1/18	12% (includes a 4% local share)	Not specified	Landbased and riverboat casinos (23)	No	Handle – \$477,236,811 Revenue – \$56,148,121 State Share – \$6,737,774
WV	8/30/18	10%	\$100,000 application fee	Racetracks (4) and the private club at Greenbriar	Yes	Handle – \$282,110,247 Revenue – \$26,265,588 State Share – \$2,626,559
NM ³	10/16/18	Not specified	Not specified	Tribal casinos (2)	No	Not currently available
PA	11/17/18	36% (includes a 2% local share)	\$10,000,000 application fee	Casinos and racetracks (12)	Yes	Handle – \$1,506,982,035 Revenue – \$86,664,503 State Share – \$31,199,221
RI	11/26/18	51%	No separate sportsbook licensing fee required	Casinos (2)	Yes	Handle – \$221,911,697 Revenue – \$16,265,850 State Share – \$8,749,801

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<u>State</u>	<u>First Bet Placed</u>	<u>Tax Rate</u>	<u>Fees</u>	<u>Retail Sportsbooks Type / #</u>	<u>Mobile Betting</u>	<u>Sportsbook Data (Launch Date through December 2019)¹</u>
AR	7/1/19	First \$150,000,000 at 13%, any additional revenues at 20%	Application fee not to exceed \$250,000	Racetracks (2) and proposed casinos (2)	No	Not currently available
NY	7/6/19	10%	No separate sportsbook licensing fee required	Casinos (4)	No	Handle – Not currently available Revenue – \$7,783,424 State Share – \$778,342
IA	8/15/19	6.75%	\$45,000 application fee	Casinos and racetracks (18)	Yes	Handle – \$212,225,573 Revenue – \$19,283,573 State Share – \$1,301,641
OR	8/27/19	Not available	Not specified	Tribal casinos ⁴	Yes	Not currently available
IN	9/1/19	9.50%	\$100,000 application fee	Casinos and racetracks (16)	Yes	Handle – \$435,998,649 Revenue – \$41,385,968 State Share – \$3,931,665
NH	12/30/19	Negotiable	Not specified	Lottery (5)	Yes	Not currently available

PASPA: Professional Amateur Sports Protection Act

¹ Data for Mississippi and Rhode Island only available through November 2019.

² Vendor fees are subtracted from the handle before the distribution of the revenue.

³ In New Mexico, two of that state’s nine tribal casinos offer sports betting under the existing tribal gaming compact, although the activity remains unsanctioned under state law.

⁴ Currently, only 1 of Oregon’s 10 tribal casinos offers sports betting.

Note: Handle is the total amount of all wagers. Revenue (or gross gaming revenue) is the handle minus total win.

Source: Department of Legislative Services

Revenue Potential

The Department of Legislative Services (DLS) notes that retail sports betting revenues in surrounding states are approximately 2% of total gaming revenues. Thus, if approved in November 2020, if sports betting revenues in Maryland total 2% of Maryland’s gaming revenues, gross revenues after payouts to bettors could increase by \$36.5 million in fiscal 2022, which would be the first full year of operations. If the current table games tax rate of 20% is applied, the State share would be \$7.3 million.

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However, authorizing mobile sports betting could significantly increase revenues. Based on sports gambling revenues in surrounding states that offer mobile sports betting, DLS estimates that revenues could total approximately 5% of gaming revenues. Accordingly, DLS estimates that gross revenues could increase by \$91.1 million in fiscal 2022, if sports betting is authorized both online and at Maryland casinos and racetracks. Assuming a 20% tax rate, the State share of revenues in fiscal 2022 would be \$18.2 million.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

- Lottery Retailers by County:** According to SLGCA, as of the end of fiscal 2019, there were 4,391 lottery retailers, a reduction of 78 retailers since the end of fiscal 2018. **Exhibit 11** shows the percentage of retailers and the percentage of sales for each county as well as the percentage of the State’s population. Prince George’s County accounts for significantly more sales than would be expected based on its population, while Montgomery County accounts for significantly less.
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Exhibit 11
Maryland Lottery Retailers and Sales by County
Fiscal 2019

<u>County</u>	<u>Percentage of Retailers</u>	<u>Percentage of Sales</u>	<u>Percentage of Population</u>
Allegany	1.3%	0.6%	1.2%
Anne Arundel	9.5%	9.5%	9.5%
Baltimore City	15.1%	13.3%	10.0%
Baltimore County	16.0%	16.2%	13.7%
Calvert	1.6%	1.5%	1.5%
Caroline	0.7%	0.6%	0.6%
Carroll	2.9%	2.2%	2.8%
Cecil	2.1%	1.4%	1.7%
Charles	3.2%	3.8%	2.7%
Dorchester	0.7%	0.6%	0.5%
Frederick	3.6%	2.6%	4.2%
Garrett	0.6%	0.2%	0.5%
Harford	4.0%	3.7%	4.2%
Howard	3.5%	2.9%	5.4%
Kent	0.4%	0.3%	0.3%
Montgomery	9.9%	11.4%	17.4%
Prince George’s	13.7%	20.8%	15.1%
Queen Anne’s	1.2%	0.8%	0.8%
St. Mary’s	2.2%	2.5%	1.9%
Somerset	0.4%	0.4%	0.4%
Talbot	0.8%	0.6%	0.6%
Washington	2.6%	1.7%	2.5%
Wicomico	1.8%	1.4%	1.7%
Worcester	2.2%	1.4%	0.9%

Source: State Lottery and Gaming Control Agency

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- *New Type of Lottery Game Launching in February:* SLGCA will launch a new category of lottery games called “Fast Play,” which combine elements of both draw and instant games. Players purchase a ticket through a regular lottery terminal or vending machine and can win on the spot. The initial launch will take place on February 10, 2020, with additional games being introduced throughout the year. SLGCA estimates approximately \$20 million in sales in the first year after launch with unknown effects on sales of existing games.

Appendix 1
Object/Fund Difference Report
State Lottery and Gaming Control Agency

<u>Object/Fund</u>	<u>FY 19 Actual</u>	<u>FY 20 Working Appropriation</u>	<u>FY 21 Allowance</u>	<u>FY 20 - FY 21 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	324.10	324.10	324.10	0.00	0%
02 Contractual	8.15	9.75	10.75	1.00	10.3%
Total Positions	332.25	333.85	334.85	1.00	0.3%
Objects					
01 Salaries and Wages	\$ 26,416,333	\$ 28,645,195	\$ 28,070,832	-\$ 574,363	-2.0%
02 Technical and Special Fees	428,456	541,742	554,108	12,366	2.3%
03 Communication	315,860	396,225	396,225	0	0%
04 Travel	90,814	112,757	112,757	0	0%
06 Fuel and Utilities	179,740	185,943	186,571	628	0.3%
07 Motor Vehicles	410,969	506,089	375,486	-130,603	-25.8%
08 Contractual Services	67,524,777	71,965,446	71,416,730	-548,716	-0.8%
09 Supplies and Materials	99,778	262,138	272,138	10,000	3.8%
10 Equipment – Replacement	36,317	122,500	172,500	50,000	40.8%
11 Equipment – Additional	123,940	167,000	167,000	0	0%
13 Fixed Charges	1,474,783	1,550,738	1,662,145	111,407	7.2%
14 Land and Structures	0	10,000	10,000	0	0%
Total Objects	\$ 97,101,767	\$ 104,465,773	\$ 103,396,492	-\$ 1,069,281	-1.0%
Funds					
01 General Fund	\$ 6,715,636	\$ 6,954,957	\$ 6,585,501	-\$ 369,456	-5.3%
03 Special Fund	90,386,131	97,510,816	96,810,991	-699,825	-0.7%
Total Funds	\$ 97,101,767	\$ 104,465,773	\$ 103,396,492	-\$ 1,069,281	-1.0%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.